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NORTHERN TAR, CHEMICAL AND WOOD LIMITED

ANNUAL REPORT
1970

DIRECTORS

J. S. Gairdner J. H. Gairdner J. H. Hawke
C. W. Leonardi, C.A. A. M. Paton R. J. Prettie D. G. Sinclair

OFFICERS

R. J. Prettie — *Chairman of the Board*
D. G. Sinclair — *President* W. R. Parks — *Vice President & General Manager*
F. Hedley — *Vice President, Woods Operation* J. P. Moloney — *Secretary*
D. B. Caron, C.A. — *Treasurer* C. H. Hollingshead — *Assistant Secretary*
R. E. Johnson — *Assistant Secretary*

TRANSFER AGENT AND REGISTRAR

The Royal Trust Company — Toronto, Montreal, Winnipeg and Vancouver

AUDITORS

Glendinning, Jarrett, Gould & Co., (*Chartered Accountants*), Thunder Bay, Ontario

NORTHERN TAR, CHEMICAL AND WOOD LIMITED
NORTHERN WOOD PRESERVERS, LIMITED
NORTHERN FOREST PRODUCTS LTD.
NORTHERN WOOD PRESERVERS (SASKATCHEWAN) LIMITED

Head Office: Thunder Bay, Ontario
Plants: Thunder Bay, Prince Albert
Sales Offices: Thunder Bay, Prince Albert, Toronto

Report To The Shareholders:

A major downturn in lumber prices, coupled with reduced construction activities and the freeing of the Canadian dollar adversely affected your Company's performance in 1970.

The Company showed a loss of $142,622 compared to a profit of $227,332 or 41 cents per share in 1969.

Preference share dividends of $53,421 were paid and the suspension of payment of dividends on the common shares was continued. Sales were $8,088,822 compared to $6,966,033 as restated eliminating by-product sales.

Capital expenditures were held in line to $253,595, the monies being spent on an electrical sub-station and a new dry kiln at Thunder Bay.

Inventories were reduced considerably in 1970 and refinements were made in the method of operating the lumber mill. The resultant efficiency of operation brought about by these changes will allow the mill to be used to maximum advantage.

Management has been working closely with the Saskatchewan division during the year under review in an effort to develop new and existing lines and increase productivity. We are encouraged by results to date, and look forward to a strengthening of that division in coming years.

In May 1970 Mr. J. P. Moloney, formerly of American Standard Products (Canada) Ltd., Toronto, was appointed Manager of Finance and Secretary of the Company.

Subsequent to year end we entered into an agreement with Northwood Mills of Toronto to handle export sales, a step which we hope will increase our penetration of the export market.

The outlook for 1971 appears somewhat brighter than 1970 because of the prevailing demand for more housing and the easing of interest rates. Economic stimulants being used by the Governments of both Canada and the United States should also encourage the growth of the construction industry. Lumber prices are currently 30 per cent higher than a year ago and, assuming a continuation of this trend, we anticipate improved financial returns for 1971.

May I take this opportunity of thanking our management, staff, and associates for their continued efforts and loyalty during the past year.

Submitted on behalf of the Board,

D. G. SINCLAIR
President

March 2, 1971

NORTHERN TAR, CHEMICAL AND WOOD LI

CONSOLIDATED BALANCE SH

ASSETS

	1970	1969
CURRENT		
Cash	**$ 13,260**	$ 13,748
Accounts receivable	**1,494,805**	932,084
Inventories—at the lower of cost or net realizable value	**1,488,695**	1,996,822
Work in progress—at the lower of cost or net realizable value	**1,051,826**	780,774
Receivable on account of forgivable development loan (Note 4)	**94,185**	48,061
Prepaid expenses and other assets	**12,947**	39,034
Overpayment of income taxes	**125,096**	71,376
Income tax claim pending (Note 2)	**81,000**	—
	4,361,814	3,881,899
INVESTMENTS AND DEPOSITS—at cost	**14,500**	14,500
FIXED		
Land, buildings, road, machinery and equipment—at cost (Note 4)	**6,108,413**	5,941,523
Less accumulated depreciation	**3,622,413**	3,313,703
	2,486,000	2,627,820
DEFERRED CHARGES		
Organization and financing costs less amortization	**141,709**	149,040
Goodwill and patent rights—at cost	**14,491**	14,491
	156,200	163,531
EXCESS OF COST OF INVESTMENT IN SUBSIDIARY COMPANIES OVER NET BOOK VALUE	**98,504**	98,504
	$7,117,018	$6,786,254

Approved by the Board:

D. G. Sinclair, Director

C. W. Leonardi, Director

AUDITOR

To the Shareholders of
Northern Tar, Chemical and Wood Limited.

We have examined the consolidated balance sheet of Northern Tar, Chemical and Wood Limited and its subsidiary companies as at December 31, 1970 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Thunder Bay, Ontario,
February 8, 1971.

(The notes appended hereto form an i

.IMITED and its subsidiary companies

ET AS AT DECEMBER 31, 1970

LIABILITIES

	1970	1969
CURRENT		
Bank advances (secured)	**$2,237,527**	$1,734,145
Accounts payable and accrued liabilities	**906,966**	670,015
Current instalments of long-term debt	**125,000**	125,000
Dividends payable	**13,260**	13,748
	3,282,753	2,542,908
LONG-TERM DEBT (less current instalment) (Note 1)		
7.8% secured debenture due December 15, 1983 payable in annual instalments	**1,270,000**	1,380,000
8% mortgage payable in quarterly principal instalments of $3,750 due March 1, 1972	**2,850**	18,650
	1,272,850	1,398,650
DEFERRED INCOME TAXES (Note 2)	**151,198**	218,424

SHAREHOLDERS' EQUITY

	1970	1969
SHARE CAPITAL		
Authorized		
95,199—preference shares with par value of $25 each, issuable in series (Note 3)		
1,000,000—common shares without par value		
Issued and fully paid		
31,199—$1.70 cumulative, redeemable preference shares Series A, (Note 3)	**779,975**	808,725
420,000—common shares (600 shares issued for cash of $3,540 in 1969)	**860,040**	860,040
	1,640,015	1,668,765
RETAINED EARNINGS	**770,202**	957,507
	2,410,217	2,626,272
	$7,117,018	$6,786,254

REPORT

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in accounting for revenue from by-product sales referred to in Note 5 with which we concur.

GLENDINNING, JARRETT, GOULD & CO.
Chartered Accountants

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CONSOLIDATED STATEMENT OF EARNINGS
year ended December 31, 1970

	1970	1969
SALES (Note 5)	$8,088,822	$6,966,093
COST OF SALES (Note 5)	7,216,458	5,635,708
GROSS EARNINGS FROM OPERATIONS	872,364	1,330,385
OPERATING EXPENSES		
Administrative and general	561,794	522,064
Depreciation	308,710	276,662
	870,504	798,726
NET EARNINGS FROM OPERATIONS	1,860	531,659
FINANCIAL EXPENSES		
Debentures—interest	115,844	124,253
—amortization of financing costs	7,332	8,178
Other interest and discounts	179,422	139,253
	302,598	271,684
	(300,738)	259,975
OTHER INCOME	—	6,070
NET EARNINGS (LOSS) BEFORE INCOME TAXES	(300,738)	266,045
PROVISION FOR INCOME TAXES		
Income taxes payable (recoverable)	(90,890)	84,695
Deferred income taxes (Note 2)	(67,226)	62,396
	(158,116)	147,091
NET EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS	(142,622)	118,954
EXTRAORDINARY ITEMS (Note 6)	—	108,378
NET EARNINGS (LOSS) FOR THE YEAR	$ (142,622)	$ 227,332
NET EARNINGS (LOSS) PER SHARE, BEFORE EXTRAORDINARY ITEMS	$ (.47)	$ .15
NET EARNINGS (LOSS) PER SHARE FOR THE YEAR	$ (.47)	$ .41

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
year ended December 31, 1970

	1970	1969
BALANCE, JANUARY 1		
As previously reported	$ 968,757	$ 867,455
Deduction resulting from adjustments of prior year's provisions for income taxes	11,250	2,626
As restated	957,507	864,829
NET EARNINGS (LOSS) FOR THE YEAR	(142,622)	227,332
DISCOUNT ON REDEMPTION OF PREFERENCE SHARES	8,738	4,624
	823,623	1,096,785
DIVIDENDS DECLARED		
Preference	53,421	55,338
Common	—	83,940
	53,421	139,278
BALANCE, DECEMBER 31	$ 770,202	$ 957,507

(The notes appended hereto form an integral part of the financial statements)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

year ended December 31, 1970

	1970	1969
SOURCE OF FUNDS		
Net earnings (loss) for the year	**$ (142,622)**	$ 227,332
Deductions made when determining net earnings, not requiring an outlay of funds		
Depreciation	**308,710**	276,662
Deferred income taxes	**(67,226)**	156,374
Amortization of financing costs	**7,332**	8,178
Total funds from operations	**106,194**	668,546
Issue of common shares	—	3,540
Special refundable tax	—	1,056
Ontario Development Corporation loan (Note 4)	**46,123**	298,561
Mortgage payable		50,000
	152,317	1,021,703
APPLICATION OF FUNDS		
Fixed assets purchased (net)	**213,013**	1,136,110
Long-term debt retirement	**125,800**	141,350
Redemption of preference shares	**20,013**	22,876
Dividends		
Common shares	—	83,940
Preference shares	**53,421**	55,338
Financing costs	—	18,138
Adjustments applicable to prior years	—	539
	412,247	1,458,291
DECREASE IN WORKING CAPITAL FOR THE YEAR	**(259,930)**	(436,588)
WORKING CAPITAL, JANUARY 1	**1,338,991**	1,775,579
WORKING CAPITAL, DECEMBER 31	**$1,079,061**	$1,338,991

(The notes appended hereto form an integral part of the financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1970

1. *Long-Term Debt*

The debenture issued by a wholly-owned subsidiary is repayable over the years 1971 to 1983, inclusive. During the next five years, repayments of $110,000 per year will be required.

2. *Income Taxes*

A. *Income Tax Claim Pending*

The Company has paid additional income taxes of $81,000 resulting from re-assessments disallowing certain expenses of the years 1964 to 1966 inclusive, but has filed objections to the re-assessments.

Another taxpayer has been successful in its appeal to the Exchequer Court of Canada against a similar disallowance, and it is understood that this decision will not be further appealed. In the opinion of counsel, the Company's objections to its re-assessments will probably therefore be sustained and the additional tax paid will be refunded. The Company's right to this amount is, accordingly, shown as a current asset. No corresponding re-assessments have been issued by the Ontario Corporations Tax Branch.

B. *Deferred Income Taxes*

(i) *Deferred tax credit*

The deferred tax credit of $151,198 results from the adoption in 1968 of the tax allocation basis of computing income taxes. This amount is after deduction of $147,060 arising from application of losses against future years' taxable incomes. Realization of these loss carry-forward benefits is contingent upon the Company earning sufficient profits in future years. In the opinion of management, it is virtually certain that future earnings of the Company will be sufficient to enable it to realize these benefits.

(ii) *Cumulative tax deferments*

Unrecorded deferred income tax credits accumulating prior to the adoption of the income tax allocation basis in 1968 amount to $257,741.

3. *Purchase Fund for Redemption of Preference Shares*

On or before March 1 in each year commencing with the year 1966, the Company must set aside a purchase fund of $20,000 for the purchase of preference shares for cancellation, until the said amounts set aside and not used or applied equal $80,000. Since March 1, 1966, 4,801 preference shares have been purchased for cancellation at an aggregate cost of $100,383 including cost of purchasing. In 1970, 1,150 shares were purchased at a cost of $20,383 (1969—1,100 shares for $23,248).

4. *Contingent Liability*

A subsidiary company, Northern Wood Preservers, Limited has entered into a forgivable loan agreement with the Ontario Development Corporation dated April 25, 1968 amounting to $89,583, of which $71,667 is presently outstanding. Subject to the fulfilment of certain specified conditions, 10% of the loan is to be forgiven in each of the years 1971 to 1973 inclusive and the balance forgiven in 1974.

The subsidiary company has entered into a second agreement with the Ontario Development Corporation dated May 29, 1969. Under the terms of this agreement that company has received $250,000 as an interest-free forgivable loan and a further $94,185 is receivable provided the company completes its capital expenditure programme approved under the loan agreement. Terms of forgiveness are 10% one year after the last loan payment is received and 10% in each of the next four years, with the balance being forgivable in the next subsequent year.

The amounts received and receivable under these agreements have been deducted from the fixed assets on the balance sheet.

5. *Sales and Cost of Sales*

Commencing in 1970 revenue from sales of by-products has been deducted from cost of sales. In previous years, this item was included in sales. This change reduced sales and cost of sales by $1,799,394. The 1969 figures have been similarly adjusted by $1,529,191.

Cost of sales in 1969 was reduced by a business interruption insurance settlement in the amount of $251,698.

6. *Extraordinary Item*

The extraordinary item in 1969 was the excess of insurance proceeds over net book value of assets destroyed, less deferred taxes of $93,979.

7. *Remuneration of Directors and Senior Officers*

Directors' fees and senior officers' salaries included in the statements amount to $3,500 and $118,592 respectively.

Note